

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON FINANCE

Call to Order: By **VICE CHAIRMAN KEN MILLER**, on March 1, 2001 at 9:00 A.M., in Room 317-C Capitol.

ROLL CALL

Members Present:

Sen. Bob Keenan, Chairman (R)
Sen. Ken Miller, Vice Chairman (R)
Sen. Chris Christiaens (D)
Sen. William Crismore (R)
Sen. Greg Jergeson (D)
Sen. Royal Johnson (R)
Sen. Arnie Mohl (R)
Sen. Linda Nelson (D)
Sen. Debbie Shea (D)
Sen. Corey Stapleton (R)
Sen. Bill Tash (R)
Sen. Jon Tester (D)
Sen. Mignon Waterman (D)
Sen. Jack Wells (R)
Sen. Tom Zook (R)

Members Excused: Sen. Tom A. Beck (R)
Sen. John Cobb (R)
Sen. Bea McCarthy (D)

Members Absent: None.

Staff Present: Prudence Gildroy, Committee Secretary
Jon Moe, Legislative Fiscal Division

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: HB 73, 2/26/2001; HB 41,
2/26/2001; HB 109 2/26/2001
(cancelled)

{Tape : 1; Side : A}

HEARING ON HB 73

Sponsor: REP. ROY BROWN, HD 14, Billings

Proponents: Aidan Myhre, Montana Chamber of Commerce
Will Selser, Lewis and Clark County

Opponents: None

Opening Statement by Sponsor:

REP. ROY BROWN, HD 14, Billings, introduced HB 73, a bill dealing with a full cost accounting pilot program. Over the interim he chaired the Business, Labor and Agriculture Committee which was charged with looking into government competition with private enterprise. The problem they found was how to determine if a government program was competing with a private business when the true costs of the government program cannot be figured out. Departments are set up to report direct costs only, such as wages, rent, utilities, maintenance, and communications. Indirect costs include human resources, records management, executive oversight, motor pools, building repairs, and capitalization. Government accounting is based on rules from GASB (Government Accounting Standards Board.) They recently endorsed the use of full cost accounting and issued new accounting requirements that move in that direction that phase in full cost accounting starting in July, 2002. HB 73 proposes a pilot program to make it easier for the State of Montana to comply with those new regulations. The bill sets up a pilot program for various state government programs. Each of the programs will determine the actual full cost of the program itself. Originally it was set up for 6 complete departments to do this, but the fiscal note was too high. Each department then picked out programs within their department to start the pilot program at minimal cost. The governor's office said that there would be no fiscal cost incurred by the programs that were picked under this bill. The reasons for the bill are: that taxpayers deserve to know where their tax dollars are going and whether there is cost efficient use of their dollars; legislators need to know the true cost of programs; and many programs are funded by fees commensurate with costs. Many government agencies don't realize what their fees really should be. Virtually all federal funds that are received require that departments prepare full cost accounting allocations to improve indirect costs. It is not possible to determine the true role of government and whether alternatives provided by private enterprise are viable without the true cost of government programs. Private enterprise also pays taxes. He described the bill as a good government bill and

a good way to find out the true cost of the programs. The governor's office supports the bill.

Proponents' Testimony:

Aidan Myhre, Montana Chamber of Commerce, stated support for HB 73. He said it was a good government and a good business bill. It enables agencies to determine the actual cost and the actual impact of the programs involved. It is an interim bill with a lot of input from a variety of folks. He presented written testimony from **Riley Johnson, State Director NFIB (National Federation of Independent Businesses)**. **EXHIBIT (fcs47a01)**

Will Selser, Lewis and Clark County, testified that there had been a lot of discussion in the first half of the session on full cost accounting. The county agrees with true and accurate accounting of all costs associated with provision of a public service whether that is provided by a public or private entity. There are unresolved issues involving the application of full cost accounting. He stated support for HB 73.

Opponents' Testimony:

None.

Questions from Committee Members and Responses:

SEN. TOM ZOOK noted that on the back page of the bill there is a severability clause and wondered about the need for that. **REP. BROWN** said it was part of the drafting process and didn't think there was any discussion on it. **SEN. DEBBIE SHEA** was on the committee also.

SEN. GREG JERGESON asked if the legislative auditor reviewed the bill and whether everything would still be subject to GASB. **REP. BROWN** said that the legislative audit committee looked at the bill. Originally, the bill went through the House Business and Labor Committee. It was then assigned to the House Appropriations Committee who added the amendment on page 4 line 20.

SEN. ROYAL JOHNSON called attention to line 18 on page 3 which talked about one unit of the Travel Promotion and Development Division. He wondered if the committee considered using a pilot program which covered one full division, like the entire tourism division, rather than splitting a little out of each one. It seemed to him that if you have to pick out ingredients involving full cost accounting like human resources, it almost requires doing it for the whole division. He thought it would be better

to see how full cost accounting works in one or two entire divisions. **REP. BROWN** said that would have been his choice. His committee originally picked 6 different departments. That section of the bill was amended severely to pick out certain programs within each division. They were picked because of fiscal constraints involving changing over the computer systems to add in all the indirect costs. Each one of the divisions picked certain programs that they thought they could do with a minimum amount of additional cost in order to get the pilot program going and eventually start doing it on a division by division basis. **SEN. JOHNSON** thought it would increase the costs substantially if a couple of divisions were picked and full cost accounting implemented for the whole department. That would require a fiscal note. He had never seen a time when a program could be looked at, to the extent that this bill will do, without some extra costs involved. He had a concern about line 21 page 4, which sets the reporting date for the committee. All of the interim committees that he has ever served on use about the same date. For the first year, they don't get anything done and then try to get everything done in the last two months. It seemed to him that the date ought to be moved back to June or March, which would require the committee to take some action and make a report before the end of the year. **REP. BROWN** said that idea made sense, but the committee picked the last possible date in case the time was needed. He stated that if the committee felt compelled to amend the bill to reflect a different reporting date, he would not be opposed to it.

SEN. JERGESON asked about the time frame. **REP. BROWN** said the pilot programs are small enough that there should be enough time to report by September 1.

VICE-CHAIRMAN KEN MILLER asked for an explanation of why there is a termination date of December 31. If full cost accounting works, he concluded that there would be another bill coming up that would actually implement it. **REP. BROWN** said that the termination date was for the purpose of deciding whether to implement full cost accounting or not. The termination date was set for before start of the next session.

Jon Moe, Fiscal Division, explained, in response to **SEN. JOHNSON's** question about the selection of the agencies that would be subject to the pilot program, that the ones selected are proprietary in nature, indicating that they have a fee for service type arrangement. In terms of why they were selected, it might be because they are more appropriate for a full cost accounting type model.

Closing by Sponsor:

REP. BROWN closed on HB 73 pointing out that the bill was also supported by the Montana Taxpayers Association, The Montana Telecommunications Association, and the Montana Contractors Association. The bill gives the rare opportunity to make a real difference in government. Many bills will come before the committee to make changes in statutes, but very few will have the opportunity to make the positive changes HB 73 will. He urged passage of the bill.

{Tape : 1; Side : B}

HEARING ON HB 41

Sponsor: **REP. JOHN WITT, HD 89, Carter**

Proponents: **SEN. CHRIS CHRISTIAENS, SD 23, Great Falls**

Opponents: **None**

Opening Statement by Sponsor:

REP. JOHN WITT, HD 89, Carter, opened on HB 41, an LFC (Legislative Finance Committee) bill to revise laws governing dedicated revenue and statutory appropriations; providing for the deposit of proceeds from the sale of property used in the theft or transportation of stolen livestock in the state general fund; providing for the deposit of penalties for violations of the metal mines reclamation laws in the state general fund; amending certain sections of law and providing an effective date. Amended out from the original bill was statutorily appropriating timber harvest funds to schools for technology acquisition; and statutorily appropriating hard rock mining impact trust account reserves to counties. **REP. WITT** said there would be several amendments to the bill as it proceeds. **SEN. CHRIS CHRISTIAENS** will be carrying two of them. **SEN. CHRISTIAENS** said one additional amendment would come from another legislator. **REP. WITT** stated that a previous legislature had de-earmarked timber harvest funds. Timber harvest funds varied from year to year. The committee recommended earmarking the account to allow OPI to distribute technology acquisition funds. Also the hard rock mining impact trust account may or may not have funds to distribute to counties and would be de-earmarked by the 1999 legislature. The subcommittee de-earmarked revenue from proceeds from the sale of property used in the theft or transportation of stolen livestock in the state general fund and removed the statutory appropriation. For the last three years the account contained \$500. There was a 0 balance for each of the years of the past biennium. The subcommittee said that it was

inappropriate to have an agency with fines and penalty (inaudible).

Proponents' Testimony:

SEN. CHRIS CHRISTIAENS, SD 23, Great Falls, stated that he was chair of the subcommittee during the interim. There are going to be amendments that involve OPI regarding the appropriation of timber harvest funds for technology acquisition. There has been a problem over the years in the way that money comes and is distributed for schools to use for technology. The bill currently says that OPI transfers the money out by September 1 of each year. One of the needed changes was that they never knew how much money there was going to be. It was not a smooth transition of money and affected the way schools were able to utilize it. The bill also deals a hard rock mining and reclamation account. An amendment pertaining to that may be coming from the house. **SEN. GROSFIELD** has an amendment and **SEN. CHRISTIAENS** is carrying an amendment from OPI. He said that **Kathy Fabiano** of OPI would be available as an informational witness and for questioning.

Opponents' Testimony:

None.

Informational Witnesses:

Kathy Fabiano testified that she was neither a proponent or opponent as nothing in the current bill affects OPI. In the original bill Sections 1 through 3 distributed timber harvest money to schools. What those sections of the bill did was give a statutory appropriation to make that distribution. This has been a problem ever since the 1995 legislature earmarked a portion of the timber money for schools for technology purposes. That was done in HB 201 in 1995. That law requires that a portion of the income from the harvest of timber on school trust lands be used to support school district technology costs. There is a formula set in law that tells how much money that is. Anything harvested over 18 million board feet on the trust lands is taken out of the average sale price for that year and that determines the amount of money that goes to schools. That is a very valuable source of revenue. She handed out and explained DNRC timber sale revenue projections for deposit in school district technology acquisition funds for the FY1997-2003. **EXHIBIT(fcs47a02)** The problem is that the amount appropriated doesn't equal the amount of money provided in 20-9-353. This problem is particularly volatile this year. Money is distributed in the year after it is received making it very hard for schools to plan. (Inaudible)

Questions from Committee Members and Responses:

SEN. MIGNON WATERMAN asked how it was handled when there was not enough to appropriate. **Ms. Fabiano** replied that there is language in HB 3 that says that if the appropriation is greater than the amount of money available, then what is distributed is what is available.

SEN. CHRISTIAENS asked what happens if the subcommittee does not offer a supplemental. Does the money sit over the next two years and how would OPI work with that in preparing the budget. (*From this point on, the tape appears to be blank*) **SEN. JOHNSON** asked if the money was in a state special fund or general fund. **Ms. Fabiano** indicated that it was general fund. **SEN. CHRISTIAENS** asked why it doesn't come in as state special revenue and whether that would be helpful. **Ms. Fabiano** said the problem was with the language in HB 2 regarding distributing what comes in. If funds were over-distributed, she had to use a manual accounting system to offset. Manual records are the only way to see the transactions clearly. There is no clean accounting from the general fund. She agreed that funds should be in a special revenue account. The interim committee brought it up, but the LFC did not do it.

SEN. WATERMAN recalled that there is a lawsuit pending regarding timber sales on state lands. There is an issue with timber dollars going to schools. **Ms. Fabiano** said she was not aware of a lawsuit.

SEN. TOM ZOOK asked about the dollars involved in the metal mines and livestock portions of the bill. **REP. WITT** said that fires impacted timber sales and that an amendment needs to be drafted.

Closing by Sponsor:

REP. WITT closed on HB 41. He pointed out some sections of the bill that need changing. **VICE-CHAIRMAN MILLER** asked if the issue could be handled by the full committee or if a subcommittee was needed. **SEN. LINDA NELSON** suggested looking at the amendments. **Jon Moe, Legislative Fiscal Division** passed out an amendment **EXHIBIT (fcs47a03)** that restores Section 1, 2 and 3 that were struck by the House Appropriations amendment. The new amendment restores the appropriation from timber dollars. **SEN. JOHNSON** asked how to establish the appropriation given the uncertainty about the amounts. **Mr. Moe** said the law provides that the amount received becomes the amount available for appropriation. The legislature appropriates an amount that is thought to be

available, not unlike many other appropriations, although a little more volatile. **VICE-CHAIRMAN MILLER** asked to look at the other amendment. **Mr. Moe** said that when the House Appropriations deleted sections of the bill, that they were in error in deleting Sec 1 and that he had prepared an amendment. Section 1 lists sections in law that have statutory appropriations. He handed out two more amendments. **EXHIBIT(fcs47a04) EXHIBIT(fcs47a05)** **Mr. Moe** stated that **SEN. ZOOK** would be carrying an amendment for **SEN. GROSFIELD** that would de-earmark the funds from specifically funding technology. The money will still go to schools but it is not earmarked for technology acquisitions. **SEN. JON TESTER** asked about that amendment. **EXHIBIT(fcs47a06)** **Mr. Moe** explained that the amendment with the file name HB004102 (Exhibit 5) amended Section 1 back in. He said he needed to talk to the Chairman about someone carrying the amendment. He said that HB004101.arl is the **GROSFIELD** amendment. **SEN. JERGESON** asked if the amendment would repeal the money going to the school trust. **SEN BILL CRISMORE** said the amendment just repeals where the money is to be used. **SEN. WATERMAN** asked what would require that the money would go to schools. **Mr. Moe** said it was his understanding that the money would still go to schools. It leaves the fund intact but it is spent at the discretion of local decision-makers. **SEN. WATERMAN** asked about the legality of putting state school trust funds in the general fund. **SEN. ZOOK** asked **Mr. Moe** to research the accounting issue. **Ms. Fabiano** said that DOR has a code identified as timber harvest revenue. **SEN. MILLER** asked if **Ms. Fabiano** had seen the **GROSFIELD** amendment. She said she had not. Discussion continued briefly regarding the amendment.

ADJOURNMENT

Adjournment: 10:15 A.M.

SEN. BOB KEENAN, Chairman

PRUDENCE GILDROY, Secretary

BK/PG

EXHIBIT(fcs47aad)